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Sent: Wednesday, June 19, 2013 9:39 PM
To: Epstein, Jeffrey (jeevacation@gmail.com)
Cc: [REDACTED] Barrett, Paul S; Barrett Team
Subject: Fed - recap of decision/press conf

Jeffrey,

Quick update post Fed commentar=.

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JPY: 96.45 (1.25% move higher)

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CADJPY: 93.80 (0.40% move)

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EUR: 1.3290 (1% move lower)

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EURCHF: 1.2335 (0.20% move)

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10yr: +7.65% at 2.35

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Bottom Line</=>

· &nbs=; Overall this was more hawkish decision/press conf than expected for one reason in particular: Bernanke (for the first time) articulated a QE tapering pace and it was faster/more aggressive than expected. Bernanke implied that the Fed would begin tapering later this year assuming growth stays at the present pace and would have purchases ended by mid '14 (he added that the UR would be in the vicinity of ~7% once QE wrapped up next year). While many market participants were beginning to anticipate reduced purchases later in '13 the thinking was the pace would be very gradual (and not conclude until later in '14). (he also didn't do the best job during some of the QE explaining the tapering logistics). Beyond QE, the Fed's message on growth was upgraded slightly and they don't sound all that concerned about disinflation. As far as trading is concerned, Bernanke's new message hit TSYs hard and it felt like stocks

followed=yields (more than they did the more hawkish Fed message). =OTTOM LINE – the Fed was hawkish and stocks sold off BUT keep in mind the S&P is still up WTD and stocks (once again) ca=e a lot more about the volatility in other asset classes than they do the =ctual FOMC message (i.e. it appears that FI once again was caught =latfooted and required the larger price adjustment and this transiti=n spooked stocks more than the QE schedule did). Selling wasn't super aggressive Wed afternoon and (as has been the case for a while=now) thin liquidity played a big part in the swoon. Stepping b=ck, the S&P (looking back over the last several weeks) still =an't be accused of doing more than consolidating/digesting =it is less than 3% off the recent all time nominal high). With the=Fed now out of the way and aside from the June flash PMIs (China Wed night= US/Europe Thurs morning) the calendar will quiet down again until=the week of Jul 1 (the week of Jul 1 brings all the big June eco numbe=s inc. the US jobs as well as ECB/BOE meetings. Note that attend=nce/volumes will be impacted by the 7/4 US holiday this week). =0ADuring the week of Jul 8, the CQ2 earnings season will kick-off (=A is Mon night 7/8) and the minutes from this 6/19 meeting hit on Wed Jul =0.

Press co=f

* Bernan=e said the Fed is reviewing the exit policy strategies and will have more =o say in the future. However, Bernanke said a "strong majori=y" of Fed officials now agree that mortgage securities likely won't be sold during the process of policy normalization. =0A

*Bernanke repe=ted the 6.5% UR target isn't an automatic trigger point and if inf=ation stays tame it may be appropriate to keep ZIRP in place (i.e. ZIR= can stay if UR falls below 6.5%).

&=iddot; &nb=p; Bernanke said if data stays on track the =ed would begin tapering QE later in '13 and conclude purchases by mi= '14. Bernanke said by the end of QE UR would prob. be in =he vicinity of ~7%. Bernanke said the Fed remains "data depe=dent" though and this QE pace is subject to change.

· = Bernanke hinted he =ould adjust the UR ZIRP threshold lower.

&m=ddot; &nbs=; Bernanke notes that even after QE ends the=Fed won't be reducing its balance sheet.

· = Bernanke acknowledges the recen= back-up in rates and attributes it to a brighter growth outlook as well a= changing Fed expectations. Bernanke said he was a "little p=zzed" by the increase in bond yields - "it seems to be factor= beyond simply Fed expectations are at work".

· = Bernanke was asked about =is tenure as chairman and said "I have nothing to say about my perso=al plans".

=span style="font-size:10.0pt;font-family:Symbol"> = Bernanke said the country's biggest banks are at or nea= the Basel III capital levels already.

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Statement

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· &nb=p; The qualitative language on growth =asn't changed too much. Growth is still expanding at a moder=te pace and while the job markets have improved UR remains elevated.&nbs=; On inflation, the Fed still says that while price developments are runni=g below the long-term objective, expectations remain stable. =

* This line is being taken as a small hawkish upgrade from the prior statement – “The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished since the fall” (the prior language – from May 1 – “The Committee continues to see downside risks to the economic outlook”)

• Voting – George still dissented

• <http://goo.gl/fRqez> <<http://goo.gl/fRqez>>

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Forecasts

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• GDP was tweaked a bit but didn't change much and '14 actually tweaked higher ('13 from 2.3-2.8% to 2.3-2.6% and '14 from 2.9-3.4% to 3-3.5%).

• Importantly, PCE ests didn't change a whole lot

* In terms of voting on the first rate hike, there wasn't a whole lot of change. 14 people now see the first hike in '15 (vs. 13 prior). 3 see the first hike in '14 (vs. 4 previously).

• <http://goo.gl/oxbCm>

Thanks,

Stacy

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